

UNIMAR INTERNATIONAL, INC.  
AND SUBSIDIARIES

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REPORT ON AUDIT OF CONSOLIDATED  
FINANCIAL STATEMENTS

September 30, 1990 and 1989

Coopers  
& Lybrand

Certified Public Accountants

UNIMAR INTERNATIONAL, INC.  
AND SUBSIDIARIES

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REPORT ON AUDIT OF CONSOLIDATED  
FINANCIAL STATEMENTS

September 30, 1990 and 1989



REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and  
Stockholders of  
Unimar International, Inc.

We have audited the accompanying consolidated balance sheets of Unimar International, Inc. and subsidiaries (the "Company") as of September 30, 1990 and 1989, and the related consolidated statements of operations, stockholders' (deficit) equity, and cash flows for the period from August 23, 1988 to September 30, 1989 and the year ended September 30, 1990. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Unimar International, Inc. and subsidiaries as of September 30, 1990 and 1989, and the consolidated results of their operations and their cash flows for the period from August 23, 1988 to September 30, 1989 and the year ended September 30, 1990, in conformity with generally accepted accounting principles.

As more fully described in Note 13 to the consolidated financial statements, the Company is subject to the terms of a consent decree as the result of a lawsuit commenced by certain governmental agencies and is involved in other matters of litigation and pending and threatened claims. The ultimate financial impact of the consent decrees and certain matters of litigation and pending and threatened claims cannot presently be determined. Accordingly, no provision for any liability that may result has been made in the accompanying consolidated financial statements.



As more fully described in Note 3 to the consolidated financial statements, Unimar International, Inc. and its subsidiaries (successor in interest to WFI Industries, Inc. and subsidiaries) filed voluntary petitions under Chapter 11 of the Federal Bankruptcy Code. Subsequently, the Court, the Company's stockholders, and the Company's creditors confirmed the Company's Plan of Reorganization (the "Plan"). The accompanying consolidated financial statements reflect the debt and equity securities issued in satisfaction of prepetition claims.

As described in Note 3 to the consolidated financial statements, the accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The going-concern basis contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The appropriateness of using the going-concern basis of accounting is dependent upon, among other things, future successful operations and the ability to generate sufficient cash from operations and other financing sources to meet the obligations of the Company, including not only those of continuing operations but also liabilities resulting from the Plan. The Company has experienced significant losses from operations and at September 30, 1990 has a deficiency in stockholders' equity. These matters raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

*Coopers & Lybrand*

Seattle, Washington  
December 17, 1990



UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEET  
September 30, 1990 and 1989

ASSETS		1990	1989
Current assets:			
Cash		\$ 177,922	\$ 255,533
Cash held in escrow		1,235,915	159,908
Trade accounts receivable, less allowance for doubtful accounts of \$452,926 and \$198,276 in 1990 and 1989, respectively		275,546	2,704,785
Other receivables		133,488	2,418,489
Costs and estimated earnings in excess of billings on uncompleted contracts		29,547	49,185
Operating supplies		<u>467,439</u>	<u>608,341</u>
Total current assets		2,319,857	6,196,241
Vessels held for resale		2,773,445	
Vessels, equipment and property, net		36,614,808	50,425,228
Cash held in escrow		<u>1,599,012</u>	<u>2,303,314</u>
		<u>\$ 43,307,122</u>	<u>\$ 58,924,783</u>
LIABILITIES AND STOCKHOLDERS' (DEFICIT) EQUITY			
Current liabilities:			
Current portion of long-term debt		\$ 2,185,946	\$ 1,644,980
Trade accounts payable		1,666,262	1,708,089
Accrued expenses		1,774,909	4,245,369
Payable to creditors under the Plan of Reorganization		2,169,209	2,467,815
Accrued interest payable		<u>509,456</u>	<u>383,366</u>
Total current liabilities		8,305,782	10,449,619
Accrued interest payable		3,051,281	1,620,714
Long-term debt, net of current portion		39,663,335	39,016,314
Liabilities deferred pursuant to the Plan of Reorganization			728,086
Deferred income taxes		<u>1,700,000</u>	<u>1,700,000</u>
Total liabilities		<u>52,720,398</u>	<u>53,514,733</u>
Commitments and contingencies			
Redeemable preferred stock, common stock, and other stockholders' (deficit) equity:			
Redeemable Series A cumulative preferred stock, \$10 par value; 1,000,000 shares authorized, issued and outstanding		10,000,000	10,000,000
Common stock and additional paid-in capital (Series A through G), no par value, 9,000,000 shares authorized; 879,518 shares issued and outstanding		8,437,473	7,316,755
Accumulated deficit		<u>(27,850,749)</u>	<u>(11,906,705)</u>
Total redeemable preferred stock, common stock, and other stockholders' equity		<u>(9,413,276)</u>	<u>5,410,050</u>
		<u>\$ 43,307,122</u>	<u>\$ 58,924,783</u>

The accompanying notes are an integral  
part of the consolidated financial statements.

UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF OPERATIONS  
for the year ended September 30, 1990 and for the  
period from August 23, 1988 through September 30, 1989

	<u>1990</u>	<u>1989</u>
Shipyard and tug and barge revenue	\$18,076,804	\$31,460,168
Cost of revenue	<u>18,960,282</u>	<u>27,976,062</u>
Loss (income)	883,478	(3,484,106)
Loss on vessel reconstruction contract, net of contract revenue \$5,255,000	<u>                    </u>	<u>2,277,359</u>
	883,478	1,206,747
Selling, general and administrative expenses	<u>3,606,167</u>	<u>4,111,968</u>
Loss from operations	4,489,645	2,905,221
Other (income) expense:		
Interest income	(117,638)	(134,910)
Interest expense - stated note terms and other	4,305,833	5,028,632
Imputed interest expense	3,052,243	2,830,897
Loss on disposal of vessel and equipment and vessels under lease	2,648,094	1,465,333
Loss on vessels held for resale	1,866,667	
Other	<u>(300,800)</u>	<u>(188,468)</u>
Net loss	<u>\$15,944,044</u>	<u>\$11,906,705</u>

The accompanying notes are an integral  
part of the consolidated financial statements.



UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY  
for the year ended September 30, 1990 and for the  
period from August 23, 1988 through September 30, 1989

	<u>Preferred Stock</u>		<u>Common Stock</u>	Additional	Accumulated	
	<u>Number of</u>	<u>At Par</u>	<u>Number of</u>	<u>Paid-In</u>	<u>Deficit</u>	<u>Total</u>
	<u>Shares</u>		<u>Shares</u>	<u>Capital</u>		
Balance, August 23, 1988	1,000,000	\$10,000,000	879,518	\$7,316,755		\$ 17,316,755
Net loss					<u>\$(11,906,705)</u>	<u>(11,906,705)</u>
Balance, September 30, 1989	1,000,000	10,000,000	879,518	7,316,755	(11,906,705)	5,410,050
Net loss					(15,944,044)	(15,944,044)
Adjustment due to quasi- reorganization accounting (Note 2)				<u>1,120,718</u>		<u>1,120,718</u>
Balance, September 30, 1990	<u>1,000,000</u>	<u>\$10,000,000</u>	<u>879,518</u>	<u>\$8,437,473</u>	<u>\$(27,850,749)</u>	<u>\$ (9,413,276)</u>

The accompanying notes are an integral  
part of the consolidated financial statements.

UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CASH FLOWS  
for the year ended September 30, 1990 and for the  
period from August 23, 1988 through September 30, 1989

	<u>1990</u>	<u>1989</u>
Cash flows from operating activities:		
Net loss	\$(15,944,044)	\$(11,906,705)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	5,145,682	5,969,184
Imputed interest	3,052,243	2,830,897
Loss on vessel and equipment	4,514,761	1,465,333
Change in assets and liabilities:		
Trade accounts receivable	2,429,239	(1,762,189)
Other receivables	2,285,001	(147,800)
Costs in excess of billings on uncompleted contracts	19,638	113,120
Operating supplies	140,902	395,981
Other	159,908	76,505
Accounts payable and accrued liabilities	(1,905,876)	2,516,043
Billings in excess of costs on uncompleted contracts		(160,500)
Accrued interest payable	<u>1,556,657</u>	<u>2,004,080</u>
Total adjustments	<u>17,398,155</u>	<u>13,300,654</u>
Net cash provided by operating activities	<u>1,454,111</u>	<u>1,393,949</u>
Cash flows from investing activities:		
Additions to vessels, equipment and plant		(963,945)
Insurance and sale proceeds from vessels	1,376,532	1,712,300
Cash held in escrow	<u>(531,613)</u>	<u>(1,100,808)</u>
Net cash provided by (used in) investing activities	<u>844,919</u>	<u>(352,453)</u>
Cash flows from financing activities:		
Borrowings on long-term debt		1,104,205
Principal payments on long-term debt	(2,470,677)	(610,000)
Payments on liabilities deferred under the Plan of Reorganization	<u>94,026</u>	<u>(1,974,585)</u>
Net cash used in financing activities	<u>(2,376,651)</u>	<u>(1,480,380)</u>
Net decrease in cash	(77,611)	(438,884)
Cash:		
Beginning of period	<u>255,533</u>	<u>694,417</u>
End of period	<u>\$ 177,922</u>	<u>\$ 255,533</u>
Supplemental disclosures of cash flow information:		
Interest paid	<u>\$2,635,100</u>	<u>\$3,024,552</u>
Revision of the estimated liabilities due creditors under the plan of reorganization to capital	<u>\$1,120,718</u>	

The accompanying notes are an integral  
part of the consolidated financial statements.



UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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1. The Company:

Unimar International, Inc. and subsidiaries (the "Company") (see Note 3 regarding proceedings under Chapter 11) own and operate tugboats and barges, and repair, convert and construct ships. The active subsidiary corporations are:

- . United Marine Shipbuilding, Inc.
- . United Marine Tug and Barge, Inc.

2. Significant Accounting Policies:

Consolidation

Significant intercompany transactions and accounts have been eliminated.

Reorganization Accounting

As a result of the Chapter 11 proceedings and the substantial change in its capitalization, the Company has adopted quasi-reorganization principles of accounting (see Note 3). Under such principles, at August 23, 1988 (the "Effective Date"), assets were revalued to their estimated fair market values, liabilities were recorded at the discounted present values of amounts expected to be paid, and the prior deficit in retained earnings was eliminated against paid-in capital.

On the Effective Date, certain liabilities payable to creditors as defined in the "Third Amended Disclosure Statement and Revised Joint Plan of Reorganization" (the "Plan") were estimated by the Company. During the year ended September 30, 1990, these estimates were revised and accordingly, the Company has adjusted certain liabilities and additional paid-in capital. Accrued liabilities, primarily state and local taxes were reduced in the amount of \$1,120,718 and correspondingly additional paid-in capital was increased.

Accounting for Construction and Repair Contracts

The Company generally recognizes revenue on long-term construction and repair contracts on the percentage-of-completion method, based primarily on the proportion of labor hours incurred on the contract to total estimated labor hours.

Contract costs include all direct material and labor costs and those indirect costs related to contract performance, such as labor, supplies, tools, repairs and depreciation costs. Selling, general and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are determined.

Continued



UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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2. Significant Accounting Policies, Continued:

Accounting for Construction and Repair Contracts, Continued

The asset, "Costs and estimated earnings in excess of billings on uncompleted contracts," represents revenues recognized in excess of amounts billed.

Revenue from Leasing or Chartering Tugboats and Other Vessels

Revenue from the lease or charter of tugboats or other vessels is recognized as the voyage progresses.

Operating Supplies

Operating supplies consist primarily of tugboat and barge supplies and fuel, and are stated at cost and expensed as used.

Vessels, Equipment and Property

Vessels, equipment and property include tugboats and barges, ship repair and construction facilities and office facilities.

Maintenance, repairs and minor renewals are charged to expense as incurred. Additions, improvements and expenditures which increase an asset's useful life are capitalized. Depreciation is provided using the straight-line method over estimated remaining service lives, based upon the following:

	<u>Years</u>
Vessels	10 - 15
Ship repair and construction facilities	5 - 15
Property	25 - 40
Equipment and other	5 - 10

The cost and related accumulated depreciation of assets sold or retired are removed from the accounts and the related gains or losses are included in operations.

Restatements and Reclassifications

Certain reclassifications have been made to the 1989 consolidated financial statements to conform with the 1990 classifications. These reclassifications have no material effect on the net loss.

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UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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3. Proceedings Under Chapter 11:

The following is a summary of the bankruptcy proceedings and plan of reorganization for the Company. The actual court-approved plan of reorganization is available from the Company.

In 1986, WFI Industries, Inc. ("WFI") and its subsidiaries (predecessor corporations of Unimar International, Inc. and subsidiaries) individually filed petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code (the "Code") in the United States Bankruptcy Court for the Western District of Washington located in Seattle (the "Court").

In May 1988, WFI filed a Plan with the Court and it was subsequently approved by creditors and stockholders and confirmed by the Court in August 1988.

The accompanying consolidated financial statements reflect the debt and equity securities issued in satisfaction of prepetition claims and have been prepared on a going-concern basis which contemplates the realization of assets and the payment of liabilities in the ordinary course of business. The appropriateness of using the going-concern basis of accounting is dependent upon, among other things, future successful operations and the ability to generate sufficient cash from operations and other financing sources to meet the obligations of the Company, including not only continuing operations but also liabilities resulting from the Plan.

As a result of the Company's emergence from bankruptcy, and losses from operations for the period from August 23, 1988 through September 30, 1990 in the amount of \$27,850,749, and significant changes planned and in process to restore profitability, management is unable to predict the probability of successful future operations, including its ability to generate sufficient cash to meet the continuing needs of the Company or its obligations pursuant to the Plan. Management's plans to restore profitability include the disposition of certain tug and barge vessels and the sale of certain drydocks (sale proceeds will be used to reduce debt and other liabilities), internal corporate cost control programs and additional sales efforts.

On August 23, 1988, the effective date of the Plan, all outstanding common stock of WFI was transferred to the Company and subsequently canceled and 879,518 shares of various classes of common stock were distributed.

Continued



UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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3. Proceedings Under Chapter 11, Continued:

Secured creditors exchanged prepetition secured debt for newly issued debt collateralized by specific assets and the general assets of the Company (see Note 10).

A prepetition creditor agreed to accept redeemable cumulative preferred stock (1,000,000 shares, \$10 par value) with a face value of \$10,000,000 in partial satisfaction of its prepetition claims.

Unsecured creditors received a partial cash settlement of their claim and/or shares of common stock of the Company.

4. Cash Held in Escrow:

Cash held in escrow is limited to use in accordance with the Plan and other arrangements. A portion of the funds is designated for use, subject to other terms, to satisfy the obligation to the State of Washington Department of Transportation.

5. Other Receivables:

Other receivables at September 30 consist of:

	<u>1990</u>	<u>1989</u>
Insurance claims receivable (Note 9)	\$120,480	\$1,795,929
Federal income tax receivable		460,000
Other	<u>13,001</u>	<u>162,560</u>
	<u>\$133,481</u>	<u>\$2,418,489</u>

6. Costs and Estimated Earnings on Uncompleted Contracts:

Costs and estimated earnings on uncompleted contracts at September 30 consist of:

	<u>1990</u>	<u>1989</u>
Costs incurred on uncompleted contracts	\$29,547	\$ 1,065,920
Less billings to date		<u>(1,016,735)</u>
	<u>\$29,547</u>	<u>\$ 49,185</u>

Continued



UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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7. Vessels Held for Resale:

During the year ended September 30, 1990, the Company and a secured creditor, the U.S. Government as represented by the U.S. Maritime Administration ("MARAD"), formalized an agreement that allowed the Company the option to relinquish title and transfer ownership of certain vessels to MARAD in return for debt modification. In summary, the agreement provides for the following:

- . that the Company at its option, may return any vessel to MARAD in which MARAD has a security interest, (at October 1, 1989 MARAD had a security interest in 19 vessels) in return for the modification of debt terms;
- . that upon notification and return of the vessel to MARAD, all Series "A" Note principal and interest related to the vessel due subsequent to the date of the return of the vessel are liquidated (however, interest and periodic principal payments due through the return date remain an obligation of the Company);
- . that MARAD will commence foreclosure procedures on the vessel and obtain title; MARAD will then offer the vessel for sale; and
- . that all proceeds from the sale of the vessels by MARAD, if any, will be applied to reduce the Series "A" Note balance, proceeds greater than or less than the Series "A" Note are added to or reduce the Series "B" Note balance.

During 1990, the Company returned four vessels to MARAD. The returned vessels are included in the consolidated balance sheet as of September 30, 1990 in the caption "Vessels held for resale" and the related debt in the caption "Long-term debt, net of current portion." There were no returned vessels as of September 30, 1989, or for the period from August 23, 1988 through September 30, 1989. The statement of operations for the year ended September 30, 1990 includes \$1,866,667 in the caption "Loss on vessels held for resale" for vessels returned to MARAD. The loss relates to the reduction of the vessel net historical cost to their estimated fair market value (total net book value of the returned vessels was \$4,640,112 and estimated fair market value was \$2,773,445). For the year ended September 30, 1990, included in the statement of operation's caption "Imputed interest expense" is \$895,619 in recognition of the difference between the net present value of the Series "A" Notes assigned to the returned vessels and the stated face amount.

Continued



UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

8. Property, Vessels and Equipment:

Property, vessels and equipment at September 30 are summarized as follows:

	<u>1990</u>	<u>1989</u>
Property	\$ 1,780,000	\$ 1,780,000
Vessels	38,089,000	53,589,000
Vessels leased to third parties	4,013,151	
Equipment and other	<u>955,958</u>	<u>903,045</u>
	44,838,109	56,272,045
Less accumulated depreciation	<u>(8,223,301)</u>	<u>(5,846,817)</u>
	<u>\$36,614,808</u>	<u>\$50,425,228</u>

9. Accrued Liabilities:

Accrued liabilities at September 30 are summarized as follows:

	<u>1990</u>	<u>1989</u>
Union trust funds	\$ 841,897	\$ 472,743
Payroll, vacation and bonus	461,547	893,580
Reserve for environmental damages (see Note 13)	115,000	115,000
Federal income tax proceeds		460,000
Customer deposits	98,898	
Payroll, state, and local taxes	92,535	174,190
Chapter 11 administrative expenses	79,068	307,880
Union benefits	40,388	148,154
Dividend payable	36,268	
Other	9,308	62,675
Insurance payable (see Note 5)		121,404
Insurance proceeds payable		1,304,743
Reserve for litigation (see Note 13)		<u>185,000</u>
	<u>\$1,774,909</u>	<u>\$4,245,369</u>

Continued



UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

10. Long-Term Debt:

Series "A", "B" and "C" Notes issued in connection with the Plan and other notes at September 30 (see Note 3) are summarized as follows:

	1990			1989		
	Face Amount	Discount	Net	Face Amount	Discount	Net
Series "A" Notes and Other:						
Notes payable to the U.S. Government with interest at variable rates from 7.5% to 10% (9.5% and 8.5% as of September 30, 1990 and 1989, respectively), due in various quarterly installments through 2003, collateralized by vessels and vessel charter receivables	\$29,855,983	\$ (4,849,571)	\$25,006,412	\$30,500,000	\$ (6,581,092)	\$23,918,908
Note payable to the State of Washington, due in annual installments commencing in 1991, no stated interest rate (15% imputed interest)	8,400,000	(4,241,771)	4,158,229	8,400,000	(4,784,149)	3,615,851
Notes payable to a bank, with interest at variable rates from 7.5% to 10% (9.5% and 8.5% as of September 30, 1990 and 1989, respectively), due in various installments through 2003, collateralized by real property, vessels, inventory, and vessel charter receivables	2,397,664	(879,851)	1,517,813	3,099,000	(701,051)	2,397,949
Notes payable to a bank, bearing interest at 10%, payable in monthly installments of \$10,000 through 2000, collateralized by real property	1,000,000	(132,847)	867,153	1,000,000	(158,041)	841,959
Notes payable with interest at variable rates from 7.5% to 10% (9.5% and 8.5% as of September 30, 1990 and 1989, respectively), due in various semiannual installments through 2000, collateralized by vessels	170,000	(16,641)	153,359	170,000	(22,601)	147,399
Note payable to a bank, with interest at 11.5%, in monthly installments of \$9,275 plus interest, final payment due 2003	721,330		721,330	749,205		749,205
Other	606,381		606,381	220,000		220,000
Total Series "A" Notes and Other	<u>43,151,358</u>	<u>(10,120,681)</u>	<u>33,030,677</u>	<u>44,138,205</u>	<u>(12,246,934)</u>	<u>31,891,271</u>

Continued

UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

10. Long-Term Debt, Continued:

	1990			1989		
	Face Amount	Discount	Net	Face Amount	Discount	Net
Series "B" and "C" Notes:						
Notes payable to the U.S. Government with interest at 8%, due in various installments based on a cash flow formula through 2003, collateralized by vessels and vessel charter receivables	14,500,000	(7,788,505)	6,711,495	14,500,000	(8,073,643)	6,426,357
Notes payable to a bank, with interest at variable rates from 7.5% to 10.0% (9.5% and 8.5% as of September 30, 1990 and 1989, respectively), and fixed rates (8%), due in various installments based on a cash flow formula through 2003	3,804,000	(1,951,668)	1,852,332	4,364,000	(2,353,832)	2,010,168
Notes payable to a bank, payable in semiannual installments of \$25,000 through 1992, no stated interest, imputed interest at 24%, collateralized by real property	200,000	(75,809)	124,191	300,000	(85,039)	214,961
Notes payable with interest at 8%, due in various installments based on a cash flow formula through 2000, collateralized by a vessel	205,000	(74,414)	130,586	205,000	(86,463)	118,537
Total Series "B" and "C" Notes	18,709,000	(9,890,396)	8,818,604	19,369,000	(10,598,977)	8,770,023
	<u>\$61,860,358</u>	<u>\$(20,011,077)</u>	41,849,281	<u>\$63,507,205</u>	<u>\$(22,845,911)</u>	40,661,294
Less current portion			(2,185,946)			(1,644,980)
			<u>\$39,663,335</u>			<u>\$39,016,314</u>

Series "A" Notes are discounted at 15% and Series "B" and "C" Notes are discounted at 24%. Significant restrictive covenants applicable to the Company's indebtedness include, among other things: establishment and maintenance of certain restricted funds to be held in escrow; payments of prepetition tax liabilities (see Note 3); no additional liens on existing property; limitation of additional debt; no payment of dividends on common stock; and limitation on asset acquisitions.

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UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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12. Loss on Vessel Reconstruction Contract:

During the fiscal year ended September 30, 1989, the Company completed a vessel conversion contract that was in progress on August 22, 1988. As of August 22, 1988, the contract was estimated to be 5% complete and it was projected that contract costs would approximate contract revenue of \$4,250,000.

Upon completion of the contract, total contract revenue was \$5,255,000 and a loss of \$2,277,359 was incurred. This contract has been reported in the Company's consolidated statement of operations as a separate line item, "Loss on Vessel Reconstruction Contract."

13. Commitments and Contingencies:

Litigation

The Company is subject to the terms of a consent decree entered into between WFI, the U.S. Government Environmental Protection Agency (the "EPA") and the Washington State Departments of Ecology and Natural Resources (the "WSDOE"). The decree is the result of a lawsuit commenced by the EPA and the WSDOE which alleged that the operations of WFI resulted in the pollution of a lake bottom adjacent to an operating facility of the Company. The suit was exempted from the automatic stay provisions of the Code. As required by the decree, the Company has developed a testing plan, which has been approved by the EPA and WSDOE. Implementation of the plan is estimated to begin in December, 1990. The anticipated cost of the cleanup plan development approximates \$115,000 and has been accrued as of September 30, 1990. In the opinion of management, the final recommendation of the cleanup plan will propose one of the following courses of action: (1) no cleanup; (2) "cap" the pollutants with fill material; or, (3) a dredging of the lake bottom and subsequent disposal of the pollutants. Under alternative (2) or (3), though the final cost depends on the plan specifics as approved by the EPA and WSDOE, in the opinion of management, the cost range may approximate \$500,000 to \$1,000,000 and \$2,000,000 to \$5,000,000, respectively.

The Company is a defendant in a lawsuit filed by one of its customers for alleged breach of contract and interference with business activities. The suit asks for damages of \$597,000 plus punitive damages. The suit is in the discovery phase and the Company is not able to form an opinion as to the probable outcome of the lawsuit and accordingly no liability has been recorded in the consolidated financial statements as of September 30, 1990.

Continued



UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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13. Commitments and Contingencies, Continued:

Litigation, Continued

A major bareboat charter customer of the Company filed a bankruptcy proceeding in New York in August 1989 that resulted in a number of the charter customer's suppliers becoming unsecured creditors of the Company. In connection therewith, certain of the Company's vessels were seized. To obtain release of the vessels, the Company paid \$50,000, which was charged to expense in 1989, and provided in favor of the suppliers a \$187,000 letter of credit which is held in escrow pending the outcome of litigation with respect to this matter. The Company has filed suit against the charter customer for breach of a charter agreement.

The ultimate outcome of the litigation cannot presently be determined. Accordingly, no provision for any liability or recovery that may result upon the final outcome of the litigation has been made in the accompanying consolidated financial statements.

At September 30, 1990 and 1989 the Company was contingently liable for bank letters of credit in the amounts of \$187,000 and \$463,000, respectively, and has provided the bank with certificates of deposit as collateral for the letters of credit.

Pending and Threatened Claims

An insurance company that provided certain insurance coverages for the Company has made a claim for unpaid premiums of \$80,000. No provision has been made in the consolidated financial statements as of September 30, 1990. The Company believes that the claim is without merit and intends to vigorously defend its position.

14. Preferred Stock:

In accordance with the Plan, the Company issued 1,000,000 shares of redeemable cumulative preferred stock to a prepetition creditor on the effective date of the Plan. If payments on all indebtedness of the Company is current, dividends are to be paid at the lesser of \$1,000,000 per year or 20% of certain deferred transactions as defined in the Plan. No dividends were required to be accrued as of September 30, 1989. Dividends of \$36,268 were accrued at September 30, 1990. The stock is redeemable at the Company's option after the effective date of the Plan at \$5.00 per share through August 22, 1991 and \$10.00 per share thereafter. All stock must be redeemed by August 1998.

Continued



UNIMAR INTERNATIONAL, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS, Continued

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14. Preferred Stock, Continued:

In the event of liquidation, dissolution or winding up of the Company, preferred stockholders are entitled to receive \$10 per share plus all accrued and unpaid dividends at the date of the distribution.

15. Common Stock:

During 1990, the Company amended its Articles of Incorporation to change the names of the classes and series designations of common stock. The classes and series were changed from Classes "A", "B" and "C" with separate series designations to Series "A" through "G" with no class designations. The number of authorized common stock shares remained the same.

16. Vessels Leased to Third Parties

The Company has leased two vessels to third parties under a bareboat charter agreement expiring September 1991. Lease payments approximate principal and interest on the vessel. The lessor is responsible for vessel maintenance and insurance. Upon expiration of the charter, the customer has the option to purchase the vessels at the greater of \$4,013,200 or fair market value or return the vessels to the Company. At September 30, 1990, the vessels are stated at the lower of cost or fair market value. The statement of operations for the year ended September 30, 1990 includes \$1,053,400 in the caption "Loss on disposal of vessel and equipment and vessels under lease" as a reduction of vessel cost to fair market value.